

Report of the Auditor General on Head 222 –Sri Lanka Army - Year 2015

The audit of the Appropriation Account and the Reconciliation Statements including the financial records books, registers and other records of the Head 222 –Sri Lanka Army for the year ended 31 December 2015 was carried out in pursuance of provisions in Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. The Management Audit Report for the year under review was issued to the Army Commander of Sri Lanka on 30 July 2016. The audit observations, comments and findings on the accounts and the reconciliation statements were based on a review of the Accounts and Reconciliation Statements presented to audit and tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me.

1.2 Responsibilities of the Chief Accounting Officer and the Accounting Officer for the Accounts and Reconciliation Statements

The Chief Accounting Officer and the Accounting Officer are responsible for the maintenance, preparation and fair presentation of the Appropriation Account and the Reconciliation Statements in accordance with the provisions in Articles 148,149,150 and 152 of the Constitution of the Democratic Socialist Republic of Sri Lanka, other statutory provisions and Public Finance and Administrative Regulations. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of Accounts and Reconciliation Statements that are free from material misstatements whether due to fraud or error.

2. Accounts

2.1 Appropriation Account

(a) Total Provision and Expenditure

The total net provision made for the Sri Lanka Army amounted to Rs.159,814.90 million and out of that Rs.158,351.34 million had been utilized by the end of the year under review. Accordingly, the savings out of the net provision of the Sri Lanka Army amounted to Rs.1,463.56 million or 0.92 per cent. Details appear below.

Expenditure	<u>As at 31 December 2015</u>			Savings as a Percentage of Net Provision
	Net Provision	Utilization	Savings	
	Rs.Millions	Rs. Millions	Rs. Millions	
Recurrent	151,629.47	151,624.69	4.78	0.003
Capital	8,185.43	6,726.65	1,458.78	17.821
Total	159,814.90	158,351.34	1,463.56	0.916

2.2. Advance Account

2.2.1 Advances to Public Officers Account

Limits Authorised by Parliament

The limits authorized by Parliament for the Advances to Public Officers Account of the Sri Lanka Army, Item No.22201 and the actual amounts are given below.

Expenditure		Receipts		Debit Balance	
Maximum Limit	Actual	Minimum Limit	Actual	Maximum Limit	Actual
Rs.Millions	Rs.Million	Rs.Millions	Rs.Million	Rs.Millions	Rs.Millions
	s		s		
2,605	2,353	2,229	2,959	4,000	1,502

2.3 Imprest Account

The balance of the Imprest Account of the Sri Lanka Army as at 31 December 2015 amounted to Rs.528 million.

2.4 General Deposit Account

The balance of the Deposit Account, No. 6000/0000/00/0015/0103/000 of the Sri Lanka Army as at 31 December 2015 amounted to Rs.138 million.

2.5 Audit Observation

The Appropriation Account and the Reconciliation Statements of the Sri Lanka Army for the year ended 31 December 2015 had been satisfactorily prepared, subject to the Audit Observations appearing in the Management Audit Report referred to in Paragraph 1.1 above. The material and significant Audit Observations out of the Audit Observations included in the Management Audit Report appear in Paragraph 3 of this Report.

3. Material and Significant Audit Observations

3.1 Budgetary Variance

Provisions of Rs.2,604.00 million had been made under Sub – objects in respect of the utilization of loans obtained under Indian Loan Scheme. Out of that a sum of Rs.1,732.80 had been saved by the end of the year under review after utilization of provisions of Rs.871.20 million. That savings ranged from 53 per cent to 100 per cent out of the provisions made.

3.2 Imprest Account

The unsettled imprest balance of the Sri Lanka Army as at 30 April 2016 totalled Rs.23.40 million and the balances amounting to Rs.2.81 million out of that remained since 18 February 2008.

3.3 General Deposits Account

The following observations are made.

- (a) Action in terms of Financial Regulation 571 had not been taken on 165 deposits older than 2 years totalling Rs.2.64 million.
- (b) A sum of Rs.63.91 million made available by other Ministries and Departments for various activities had been retained in the General Deposit Account without executing the intended activities.

3.4 Reconciliation Statement of the Advances to Public Officers Account

According to the Reconciliation Statement as at 31 December 2015 relating to the Advances to Public Officers Account, Item No.22201 presented to audit the balances that remained outstanding as at that date totalled Rs.401.34 million. Even though those outstanding balances remained over periods ranging from 01 year to 05 years, the follow up action on the recovery of those loan balances had been at a weak level.

3.5 Unsettled Liabilities

The unsettled liabilities of the Sri Lanka Army less than one year old as at 31 December 2015 amounted to Rs.4,273.49 million.

3.6 Transactions of Contentious Nature

It was revealed during audit tests checks that Sri Lanka Army 12th Engineering Service Corp had issued the goods valued at Rs.8.86 million for the various State, religious and other ceremonies held in the years 2014 and 2015 without any approval whatsoever.

3.7 Irregular Transactions

Certain transactions entered into by the Sri Lanka Army had been devoid of regularity. Several such instances observed are given below.

Deviation from the Government Procurement Guidelines Procedure

The following deficiencies were revealed.

- (a) The following deficiencies were revealed relating to the purchase of 96 cover outers, tube inners and muffler sets to the value of Rs.8.55 million.

- (i) A sum of Rs.4.59 million had to be overpaid due to the decision taken to purchase goods from an institution who offered the higher quotation and to reject the lowest bid which had been recommended by the Technical Evaluation Committee.
 - (ii) In the above purchase, the orders placed twice as 80 units and 16 units, the supply of the goods had been delayed in both instances for 30 days and 180 days respectively. But, action had not been taken to recover the liquidated damages amounting to Rs.454,701 which should have been recovered from the supplier.
- (b) The following deficiencies were revealed relating to the purchase of 168,460 plastic file covers for Rs.50 million.
- (i) Even though the expenditure for purchase of file covers should be brought to account under Recurrent Expenditure as those are under stationery category, it was brought to account under Capital Expenditure.
 - (ii) When quotations were invited for above purchase only one supplier had offered quotations but action had not been taken either to reject the bid received or to re-invite quotations in terms of the Guideline 7.12.1 of the Government Procurement Guidelines or to negotiate with the bidder for a downward revision of prices by justifying the quotations received in terms of the Guideline 7.12.2.
 - (iii) The institution which quoted the bid was a sole trader, but various persons had signed in various instances such as in offer the bid, signing the agreement, supplying of goods and submitting bills. Therefore identifying the correct owner (supplier) of the institute had been a contentious matter.
 - (iv) Despite, it was revealed that the same owner of the two institutions who defrauded the value added tax when supplying goods to the Sri Lanka Army in preceding years and failed to supply of goods on due dates properly had quoted under the name of another institution for the supply of file covers, the bid had been awarded to the same supplier.
 - (v) Despite it was stated in the Clause 8.2 of the contract agreement signed with the supplier, that the contract should be terminated and the performance bond will be confiscated if the supply was delayed for more than 30 days, action had not been taken in terms of the agreement relating to the supplier who delayed the supply for over 08 months.
 - (vi) Despite that, the Commissioner General of Inland Revenue had confirmed that the VAT Registration Number of the person who signed the agreement was an inactive number and that this supplier institution was not an institution registered for the Value Added Tax, a sum of Rs.5.36 million had been paid to the above supplier as Value Added Tax.

- (c) In terms of Guideline 3 of the Government Procurement Guidelines, the purchases should be made by following procurement procedure stated in the procurements of goods or services. Nevertheless a building had been taken on rent at a monthly rental of Rs.2.08 million deviating from the above procedure.

3.8 Management Weaknesses

According to the Annual Procurement Plan of the Sri Lanka Army for the year 2014, provisions of Rs.24.00 million had been made to purchase musical instruments. A sum of Rs.36.13 million had been spent for the purchase musical instruments only for 20 Regiments. The following deficiencies were revealed in respect of above purchase.

- (a) The above musical instruments had been purchased for Rs.36.13 million from the President Regimental Institute Fund by following shopping procedure. Subsequently those payments had been reimbursed from the Government Funds. Accordingly, the above purchase had been made contrary to the provisions of the Government Procurement Guidelines.
- (b) The above purchase had been made as an urgent requirement for the Victory Parade held in the year 2013. But 18 Regiments had failed to obtain goods before holding the Parade in May of the year 2013.
- (c) It was observed that there was a possibility to obtain discounts from the supplier if action had been taken to purchase all those goods from same supplier as one purchase.
- (d) The goods valued at Rs.1,797,600 purchased under the above purchase for the Modara Rockhouse Camp of the Armoured Corps of the Sri Lanka Army were not available physically in the stores of the musical instruments at the physical verification carried out on 03 November 2015.
- (e) Three sofa sets purchased for Rs.543,550 from the President Regimental Institute Fund on 19 December 2013 by deviating the procurement procedure had been subsequently reimbursed from the Government Funds.

3.9 Human Resources Management

(a) Approved Cadre and Actual Cadre

The position of the cadre as at 31 December 2015 had been as follows.

Number of Regular Officers and other Ranks of the Sri Lanka Army

	Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies
(i)	Regular Officers - Permanent/ Voluntary	10,641	9,654	987
(ii)	Other Ranks – Permanent/ Voluntary	189,719	172,307	17,412
		200,360	181,961	18,399

Number of Civil Cadre of the Sri Lanka Army

Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies	Excess Cadre
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(i) Senior Level	11	09	02	-
(ii) Tertiary Level	06	02	04	-
(iii) Secondary Level	198	150	48	-
(iv) Primary Level	6,386	9,629	-	3,243
(v) Others (Casual/ Temporary/ Contract Basis)	4,537	1,188	3,349	-
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Total	11,138	10,978	3,403	3,243
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The following observations are made.

- (i) Action had not been taken by the Sri Lanka Army to obtain proper approval for the excess cadre recruited.
- (ii) Out of the approved cadre, 21,802 vacancies had existed as at the end of the year under review. Action had not been taken by the Sri Lanka Army to fill those vacancies formally and 1,188 employees had been recruited as casual employees.